

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 92-135-W/S - ORDER NO. 93-485 ✓c

JUNE 9, 1993

IN RE: Application of Point South Water and        ) ORDER  
Sewer, Inc. for Approval of an Increase        ) APPROVING  
in Rates & Charges for Water and Sewer        ) RATES AND  
Service Provided to its Customers in        ) CHARGES  
its Service Area.        )

This matter comes before the Public Service Commission of South Carolina (the Commission) by way of Application filed by Point South Water and Sewer Company (Point South or the Company) on February 17, 1993, for an increase in its rates and charges for water and sewer service provided to its customers in Jasper County, South Carolina. The Application was filed pursuant to S.C. Code Ann., §58-5-240 (1976), as amended and 26 S.C. Regs. 103-821 (1976).

By letter dated March 1, 1993, the Commission's Executive Director instructed the Company to publish a prepared Notice of Filing, one time, in a newspaper of general circulation in the area affected by the Company's Application. The Notice of Filing indicated the nature of the Company's Application and advised all interested parties of the manner and time in which to file appropriate pleadings. Additionally, the Company was instructed to directly notify all of its customers affected by the proposed

increase. The Company submitted affidavits indicating that it had complied with these instructions. Petitions to Intervene were received from the Point South Merchants Association (Merchants), and the Consumer Advocate for the State of South Carolina (the Consumer Advocate).

On May 26, 1993, a public hearing concerning the matters asserted in the Company's Application was held in the Commission's Hearing Room. Pursuant to S.C. Code Ann., §58-3-95 (Supp. 1992), a panel of three (3) Commissioners, Commissioners Yonce, Rowell, and Butler, was designated to hear and rule on this matter. Commissioner Yonce presided. The Company was represented by Raymond H. Williams, Esquire; the Intervenor, Point South Merchants Association was represented by Michael A. Molony, Esquire; the Intervenor, Consumer Advocate for the State of South Carolina was represented by Carl F. McIntosh, Esquire; and the Commission Staff was represented by F. David Butler, General Counsel.

The Company presented the testimony of Claude Dinkins and R. Arnold Ellison, Jr. The Merchants Association presented the testimony of William Fabian and William C. Olendorf, Jr. The Commission Staff presented the testimony of D. Joe Maready, Accountant, and Robert W. Burgess, Utilities Rate Analyst.

Upon full consideration of the Company's Application, the evidence presented at the hearing, and the applicable law, the Commission makes the following findings of fact and conclusions of law:

FINDINGS OF FACT

1. Point South provides water and sewer service to 14 commercial customers in Jasper County, South Carolina. It appears from the records that Point South's first rates were established by Order No. 17,922, dated October 15, 1974, under the name of Commodore Utility Corporation, but the Certificate of Public Convenience and Necessity was granted in 1973. In 1975, Commodore became defunct, and the merchants in Point South formed an association, and operated the system for the years 1975 through 1984. Point South purchased the system on November 15, 1984 for \$100,000. The properties were transferred to Point South on March 16, 1987 by Order No. 87-276. This Order also approved the present rates and charges.

2. With regard to Point South's present rates, the Company has a flat monthly fee of \$5.00 per motel room/camp site/other water customer per month for the first 2,000 gallons, and an additional \$1.25 per 1,000 gallons for all water over 2,000 gallons. There is a reconnection fee of \$25.00. Also, there are various water tap fees charged which are graduated according to meter size. The present sewer rates are \$3.00 per motel room per month, \$35.00 per month for a service station, and \$3.00 per camp site per month for camp grounds. All other sewer customers are charged a \$10.00 flat fee per month per single-family equivalent (SFE). There are also sewer tap fees approved which are graduated according to meter size.

3. With regard to the proposed rates of the Company, the

Company proposes to increase its water rates by meter size according to the following chart:

3/4" meter	0 - 2,000 gals	\$10.00/month
	Over 2,000 gals	\$ 1.50/1,000 gals
1" meter	0 - 2,000 gals	\$25.00/month
	Over 2,000 gals	\$ 1.50/1,000 gals
1½" meter	0 - 2,000 gals	\$50.00/month
	Over 2,000 gals	\$ 1.50/1,000 gals

These are the proposed increases for service stations, office buildings, and retail shops. For motels, camp grounds, and restaurants, the new water rates are for all meter sizes. The basic charges will be \$10.00 per SFE which includes 2,000 gallons per SFE. All over 2,000 gallons per SFE will be \$1.50 per 1,000 gallons.

4. The Company also proposes to establish a residential charge before this Commission, again, graduated towards meter size. For 3/4" meter, 0 - 2,000 gallons will be \$10.00 a month; over 2,000 gallons will be \$1.50 per 1,000 gallons. For 1" meter, 0 - 2,000 will be \$25.00 a month; for over 2,000 gallons, \$1.50 per 1,000 gallons. For 1½" meter, the charge will be 0 to 2,000 gallons, \$50.00 a month; over 2,000, \$1.50 per 1,000 gallons. The Company also proposes an expanded chart for water tap fees and proposes a table for the determination of a residential equivalent.

5. With regard to sewer service, the Company proposes to establish a residential base rate of \$24.20 per month. For office buildings and retail shops, the base rate would be \$24.20 per month. For service stations, a fixed rate of \$35.00 a month would

be charged, and for other commercial customers, a rate for motels, camp grounds, restaurants, and fast-food restaurants would be \$6.00, \$4.50, \$4.35, and \$2.40 per unit respectively (room, site, seat, seat). The Company also proposes an expanded chart for tap fees, connection and reconnection fees. The proposed monthly revenue increases equal a 13.88% increase for water service, 116.13% increase for sewer service, and an overall 53.07% proposed revenue increase.

6. Point South asserts its requested increase in rates and charges is necessary and justified because the Company's present rates do not generate enough income to properly maintain the system and to ensure adequate water and sewer services for all of its customers. According to the testimony of Mr. Dinkins and Mr. Ellison, Point South Water and Sewer Company is a private water and sewer utility that serves the commercial complex at the intersection of US Hwy 17 and I-95 located within Jasper County. The utility presently serves 14 customers that includes 3 motels, 2 camp grounds, and several restaurants and convenience stores. The water for potable use and fire protection is supplied from two wells and the waste water is collected and treated to a secondary level with an effluent dispersal on a dedicated spray field. The administration of the utility, that includes bookkeeping, billing, and submission of required reports is handled by the utility staff, and the operations is handled by a combination of utility employees and contract operators. According to the Company's witnesses, this is the first rate increase requested since 1987. The Company's

present operating margins are (50.46%) for sewer, and 10.09% for water, for a combined operating margin of (25.56%). Had the proposed increase been granted, the Company would have a 24.16% operating margin for sewer, a 2.60% operating margin for water for a combined 14.27% operating margin overall.

7. Point South did not contest the accounting adjustments proposed by the Commission Staff.

8. Under the Company's presently approved rates, after pro forma and accounting adjustments, the Commission Staff determined that Point South's operating revenues, operating expenses, and net income for return were \$59,397, \$74,582, and (\$15,185) respectively for the test year ending December 31, 1991. The Company proposes operating revenues, expenses, and a net income for return of \$90,919, \$77,945, and \$12,974, respectively.

#### CONCLUSIONS OF LAW

1. The Company is a water and sewer utility providing service in its service area within South Carolina. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann., §58-5-10 et seq. (1976), as amended.

2. A fundamental principle of the ratemaking process is the establishment of a historical test year as a basis for calculating a utility's revenues and expenses, and consequently, the validity of the utility's requested rate increase. While the Commission considers the utility's proposed rate increase based upon occurrences within the test year, the Commission will consider

adjustment for any known and measurable and out-of-test-year charges and expenses, revenues, and investments, and will also consider adjustments for any unusual situations which occurred in the test year. See Southern Bell Telephone & Telegraph Company v. The Public Service Commission of South Carolina, 270 S.C. 490, 244 S.E. 2d 278 (1978). In light of the fact that the Company proposes that the 12-month period ending December 31, 1991, as the appropriate test year, and Staff has audited the Company's books for that test year, the Commission concludes that the 12-month period ending December 31, 1991 is the appropriate test year for the purposes of this rate request.

3. The Commission concludes that each of the Staff adjustments proposed by the Commission Staff are appropriate and are hereby adopted by the Commission. The Commission notes that the Company did not contest the Staff's adjustments.

4. The Commission concludes that after pro forma and accounting adjustments, the Company test year operating revenues, operating expenses, and net income for return for its system were \$59,397, \$74,582, and (\$15,185) respectively. These figures are reflected in Table A as follows:

TABLE A  
NET INCOME FOR RETURN

BEFORE RATE INCREASE

Operating Revenues	\$59,397
Operating Expenses	74,582
Net Operating Income	<u>\$(15,185)</u>
Customer Growth	-0-
Total Income for Return	<u><u>\$(15,185)</u></u>

5. Under the guidelines established in the decisions of Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net revenues. As the United States Supreme Court noted in Hope, a utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility... that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." Bluefield, supra, at 692-693.

6. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of the rate of a public utility. For a water and sewer utility whose

rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction, and book value in excess of investment, the Commission may decide to use the "operating ratio" and/or "operating margin" method for determining just and reasonable rates. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the total operating income for return by the total operating revenues of the utility.

The Commission concludes that use of the operating margin is appropriate in this case. Based on the Company's gross revenues, operating expenses, and customer growth for the test year, the Company's present operating margin for combined operations is as follows:

TABLE B  
OPERATING MARGIN

BEFORE RATE INCREASE

Operating Revenues	\$59,397
Operating Expenses	74,582
Net Operating Income	<u>\$(15,185)</u>
Customer Growth	-0-
Total Income for Return	<u><u>\$(15,185)</u></u>
Operating Margin	<u><u>(25.56%)</u></u>

7. The Commission is mindful of the standard delineated in the Bluefield decision and of the need to balance the respective interests of the Company and of the consumer. It is incumbent upon this Commission to consider not only the revenue requirement of the

Company but also the proposed price for the water and sewer treatment, the quality of the water and sewer service, and the effect of the proposed rates upon the consumers. See Seabrook Island Property Owners Association v. South Carolina Public Service Commission, 401 S.E. 2d 672 (1991); S.C. Code Ann., §58-5-290 (1976), as amended.

8. The fundamental criteria of a sound rate structure have been characterized as follows:

...(a) the revenue-requirement or financial-need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between costs incurred and benefits received.

Bonbright, Principles of Public Utility Rates (1961), p. 292.

9. Based on the considerations enunciated in Bluefield and Seabrook Island, and on the fundamental criteria of a sound rate structure as stated in Principles of Public Utility Rates, the Commission determines that the Company should have the opportunity to earn an 8.39% operating margin. In order to have a reasonable opportunity to earn an 8.39% operating margin, the Company will need to produce \$83,462 in total annual operating revenues.

TABLE C  
OPERATING MARGIN

AFTER RATE INCREASE

Operating Revenues	\$83,462
Operating Expenses	<u>76,458</u>
Net Operating Income	\$ 7,004
Customer Growth	<u>-0-</u>
Total Income for Return	<u>\$ 7,004</u>
Operating Margin	<u>8.39%</u>

10. The Commission has carefully reviewed the financial status of the Company and its requested increase in its rates and charges. The Commission has also considered the testimony of the witnesses for the intervenor in this case, who have been customers for a number of years.

11. In considering the requested increase, the Commission has considered the interests of the utility, as well as the customers of Point South. The Commission has determined that the proposed increase is unreasonable and that a more appropriate increase would be accomplished with rates as shown in Appendix A attached to this Order. After considering all the testimony, the Commission, in arriving at these rates, believes that the customer Point South Cafe should be based on 100 seats, not 130 seats as appears in the testimony submitted in this case. One-Hundred (100) seats is what is approximately stated in the Application in this case. Should the seating expand in number, the Company may apply to the Commission accordingly for a modified rate.

12. Accordingly, it is ordered that the rates and charges

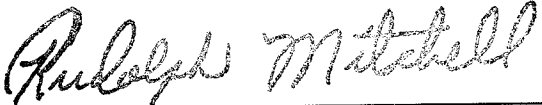
attached on Appendix A are approved for service rendered on or after June 22, 1993. The schedule is hereby deemed to be filed with the Commission pursuant to S.C. Code Ann., §58-5-240 (1976), as amended.

13. It is ordered that if the approved schedule is not placed in effect within three (3) months after the effective date of this Order, the approved schedule shall not be charged without written permission of the Commission.

14. It is further ordered that the Company maintain its books and records for water and sewer operations in accordance with the NARUC Uniform System of Accounts for water and sewer utilities as adopted by this Commission.

15. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
\_\_\_\_\_  
VICE Chairman

ATTEST:

  
\_\_\_\_\_  
Executive Director

(SEAL)

## APPENDIX A

POINT SOUTH WATER & SEWER COMPANY, INC.  
706 BAY ST.  
BEAUFORT, S.C. 29901  
1-800-526-6002

FILED PURSUANT TO DOCKET NO. 92-135-W/S - ORDER NO. 93-485  
EFFECTIVE DATE: JUNE 22, 1993

### SCHEDULE OF RATES AND CHARGES

#### WATER SERVICE:

##### 1. Residential

3/4" meter	0 - 2,000 gals	\$10.00/month
	Over 2,000 gals	\$ 1.50/1,000 gals
1" meter	0 - 2,000 gals	\$25.00/month
	Over 2,000 gals	\$ 1.50/1,000 gals
1-1/2" meter	0 - 2,000 gals	\$50.00/month
	Over 2,000 gals	\$ 1.50/1,000 gals

##### 2. Service Stations, Office Buildings & Retail Shops

3/4" meter	0 - 2,000 gals	\$10.00/month
	Over 2,000 gals	\$ 1.50/1,000 gals
1" meter	0 - 2,000 gals	\$25.00/month
	Over 2,000 gals	\$ 1.50/1,000 gals
1-1/2 meter	0 - 2,000 gals	\$50.00/month
	Over 2,000 gals	\$ 1.50/1,000 gals

##### 3. Motels, Camp Grounds & Restaurants

All Meter Sizes	0 - 2,000 gals x no. of res. equiv.*	\$10.00/month x no. of res. equiv.*
	0 - 2,000 gals x no. of res. equiv.*	\$ 1.50/1,000 gals

\* Single Family Equivalents (SFE) Based on:

APPENDIX A - POINT SOUTH W/S CO., INC.  
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(water rates continued)

<u>Class of Customer</u>	<u>Water Usage</u>	<u>Residential Equivalent</u>
Residential Unit	400 GPD	1.000/unit
Restaurant, per seat	70 GPD	0.180/unit
Fast Food, per seat	40 GPD	0.100/seat
Motel, per room	100 GPD	0.250/room
Camp Ground, per site	75 GPD	0.185/site

TAP FEES

3/4" meter	\$ 200
1" meter	\$ 225
1-1/2" meter	\$ 475
2" & Greater	Labor & material + 30% overhead

OTHER FEES

Connection/Reconnection Fee

Disconnect and Reconnect at Customer's Request	\$25.00
Disconnect and Reconnect Due to Nonpayment	\$25.00

APPENDIX A - POINT SOUTH W/S CO., INC.  
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SEWER SERVICE:

1. Residential

Base Rate	Fixed charge	\$21.20/month
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2. Office Buildings & Retail Shops

Base Rate	Fixed charge	\$21.20/month
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3. Service Stations Fixed charge \$35.00

4. Motels, Camp Grounds & Restaurants - based of SFE's

Motel Rate	Fixed charge	\$ 5.30/room
Campground	Fixed charge	\$ 3.92/site
Restaurant	Fixed charge	\$ 3.82/seat
Fast Food	Fixed charge	\$ 2.12/seat

<u>Class of Customer</u>	<u>Load</u>	<u>Residential Equivalent</u>
Residential Unit	400 GPD	1.000/unit
Motel, per room	100 GPD	0.250/room
Campground, per site	75 GPD	0.185/site
Restaurant, per seat	70 GPD	0.180/seat
Fast Food, per seat	40 GPD	0.100/seat

TAP FEES

3/4" meter	\$ 500
1" meter	\$ 600
1-1/2" meter	\$ 700
2" meter	\$ 800
3" meter	\$1,000
4" meter	\$1,200
6" meter	\$1,400